Annual Report for 1969

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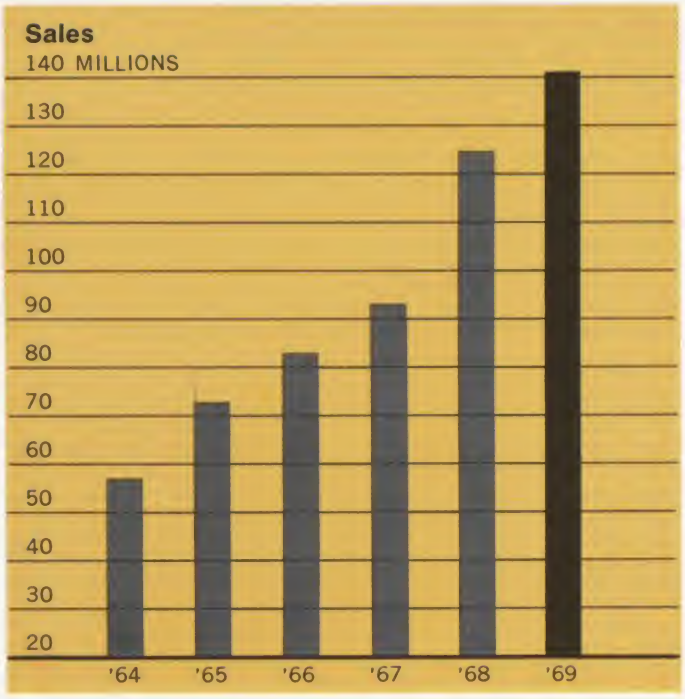
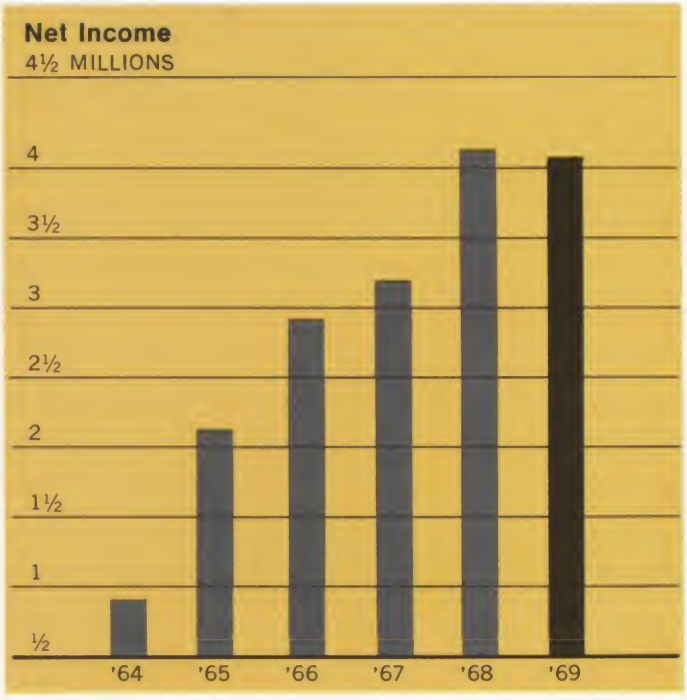
BUSINESS INF. BUR.
CORPORATION FILE

New tire, battery and automotive accessory sales and service center opened by our Bargain City Division adiacent to one of its discount department stores is shown in upper photos. At left below, Robert Breig, vice president in charge of data processing and control methods, and M. Tashima, computer center manager, watch employee operate new optical scanning equipment. Another view of the center is shown in photo at right below.





Operations

Fiscal Years Ended June 30	1969	1968	1967
Net Sales	$140,752,138	$124,899,300	$93,598,735
Net Income	$ 4,040,460	$ 4,193,766	$ 3,256,894
Net Income Per Share	$ 2.43	$ 2.52	2.01
Dividends Per Share	$ 1.20	$ 1.00	$ .74
Working Capital	$ 23,074,329	$ 21,434,044	$15,077,210
Current Ratio	2.3 to 1	2.4 to 1	2.32 to 1
Shareholders' Equity	$ 27,426,073	$ 25,380,661	$22,099,435

Stores and Leased Departments

Years Ended June 30	1969	1968	1967	1966	1965
Gray Drug Stores	115	113	113	114	109
King Discount Drug Stores	14	22	22	16	17
Leased Dept's in Stores of Other Retailers	24	21	25	26	17
Department Stores	22	22	8	7	6
Total Outlets Excluding Intra-company Leased Dept's	175	178	168	163	149
Leased Dept's Operated by Our Own Divisions in Stores of Other Divisions	28	25	19	10	9
Stores Remodeled and Enlarged	26	28	30	32	39

Letter to Shareholders

Mr. Evans

Mr. Weinberger

Sales of Gray Drug Stores, Inc., increased to a record $140,752,138 during the fiscal year ended June 30, 1969, compared with $124,899,300 during the preceding year.

The 13 per cent sales increase was achieved without any increase in the over-all number of retail outlets operated by the Company, and our sales have now increased for 19 consecutive years . . . with a vigorous expansion program scheduled for the current fiscal year.

Net income for the past year was $4,040,460 or $2.43 a share, compared with $4,193,766 or $2.52 a share for the preceding fiscal year, when the Federal surtax was in effect for only six months. The additional impact of the surtax reduced earnings by 10 cents a share, or the approximate amount of our decrease in earnings from 1968.

Net income for the year represented an after-tax return of 2.9 per cent on sales and 14.7 per cent on shareholder equity.

New Commitment to Expansion

Gray Drug has made a number of acquisitions over the years. By contrast, we have seriously considered only one proposal involving merger into an organization larger than ours. This proposed merger with Cook United, Inc., was cancelled last spring by mutual agreement because of a Justice Department requirement for divestitures which were unacceptable.

In addition to the expenses directly related to the proposed merger, the negotiations were time-consuming, and caused certain growth projects to be deferred.

We have now re-established our firm corporate policy of concentrating on growth and acquisitions, and are placing renewed emphasis on such policy.

Management Reorganization

Carlyle W. Evans, chairman of Gray Drug, is heading an accelerated acquisition search, and has relinquished all operating responsibilities to do so. Originally scheduled to retire in two years under terms of the Company's retirement program, he has now agreed to remain with Gray Drug until 1973. In addition to the acquisition search program, he also will be active in trade relations and serve in other capacities where his experience will be of value to the Company.

Jerome A. Weinberger has assumed the additional duties of chief executive officer of the Company. He was elected a vice president in 1959, executive vice president in 1963, and president in 1966. He assumed his new duties as chief executive on July 1, 1969 and intends to follow a policy of continuing expansion on a long range basis.

Marvin L. Kahn, formerly vice president, has been elected executive vice president-drug store divisions.

Cash dividend paid every year since 1929. *Our dividend payout has been increased in each of the past five years. Present rate is 30 cents quarterly or $1.20 a year. Gray Drug has now paid a cash dividend for 40 consecutive years.*

Mr. Kahn

Throughout our organization, capable young men have been promoted to positions of greater responsibility during the past several years. For example, the average age of 14 district managers in our drug divisions is 38. We have the depth of young management vital to continuing progress. These young men are enthusiastic about the future, and Gray Drug will be aggressive in seeking and developing growth opportunities both along traditional lines and in new directions.

Profile of a Mass Merchandiser

At the fiscal year-end, the Company's drug divisions were operating 174 conventional drug stores, discount drug stores, and leased departments in discount department stores. These retail units are located in eight states. They accounted for $84,694,426 in sales during the past year, an increase of 7 per cent.

Our Rink's and Bargain City discount department store divisions increased direct sales by 23 per cent to $55,775,415 during the past year, and sales of leased departments operating in these stores were $54,924,124. Total volume generated in our 22 discount department stores thus was $110,699,539.

The Company's drug divisions operate large leased departments in our discount department stores, and the Rink's division operates the apparel departments in Bargain City Stores. Sales of intra-Company leased departments were $16,924,886 during the past year.

This relationship is important, since it means that opening of a new department store benefits not only the division directly involved, but also creates protected new business for other divisions as well. In addition, nearly all of our stores have photo departments which create sales volume for our new 30,000 square foot photo processing plant opened during the past year in Cleveland and a smaller plant in Columbus.

Many New Openings

An extensive expansion program is planned during the current year. Our drug divisions have already opened two of 15 new full-line drug stores and discount drug units planned for this fiscal year. This is one of the largest drug division expansion programs in our history. Nine of the 11 new full-line stores will be in large mall-type shopping centers and five will be in cities where Gray has never operated drug stores before . . . including Marion and Toledo, Ohio; Pompano Beach, Florida; Beaver Falls, Pennsylvania; and Jamestown, New York.

Four additional leased prescription, health and beauty aids departments will be opened within the next few months in discount department stores at Louisville, Kentucky; Richmond, Virginia; and Columbus, Ohio.

The Bargain City Stores division has recently opened large tire, battery, and automotive stores and service centers adjacent to two of its department stores. Results thus far have been encouraging and gasoline service will soon be added.

We also are negotiating for sites on which to build new department stores, and anticipate a continuing expansion in this field.

A new Bargain City distribution center is in process in Toledo and a large new distribution center for our drug divisions is being planned for the Cleveland area. These will add to our efficiency and growth potential.

Financial Information

Gray Drug remains in excellent financial condition. Current assets of $40,903,865 as of June 30 were in a 2.3 ratio to current liabilities, with working capital at a record $23,074,329. An $8,000,000 revolving bank credit agreement was converted into a six-year term loan on August 1, 1969.

Cash dividends were paid at an increased rate of 30 cents a quarter or $1.20 for the past year, com-

Letter to Shareholders

pared with $1.00 for the preceding year. The dividend has been increased for five consecutive years, and cash dividends have been paid in every year since the company was organized.

Gray Drug has always emphasized modern financial procedures and controls. We have been utilizing computers since 1957, and our current IBM Model 30 System 360 equipment has recently been supplemented with an optical scanner that can read hand written numbers. It can process 4500 time cards in 40 minutes or less, and we anticipate that it will be used shortly to read and compile incoming orders from our stores.

Our sophisticated third generation computer system, including an audio response unit which provides a voice answer to telephone questions about inventory, has greatly improved inventory control and over-all efficiency. Particularly important, it provides management with comprehensive store operating data for profit planning. The central installation at Cleveland is serving all divisions, and Rink's has a smaller computer on order to assist in control of its fashion merchandise programs.

Outlook Is Good

While our Company is subject to the same inflationary pressures and over-all economic influences affecting other retailers, we expect to benefit from a number of favorable factors during the year now under way.

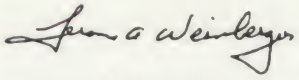
Drug divisions and the Rink's division completed management reorganization programs during the past year, and the effect of these programs in increasing efficiency is now becoming apparent.

Our 13 per cent sales increase during the past year, when some expansion projects were deferred, is a good indication of the built-in growth factors inherent in our business, with the great bulk of our stores located in suburban areas where consumer traffic continues to build year after year. This internal growth now is being supplemented by a record increase in the number of new locations.

Our drug stores and our department stores enjoy strong positions of leadership in the areas they serve. We are highly competitive, and in a period when consumers are value conscious, we expect to attract additional patronage. Also, most of our product lines, such as pharmaceuticals, cosmetics, and photographic equipment, continue in rising demand in excess of over-all spending patterns. All divisions report strong sales volume during the current fiscal year to date, and all are forecasting increases for the full year.

Sincerely,

C. W. Evans,
Chairman of the Board



Jerome A. Weinberger,
President and Chief Executive Officer

September 26, 1969

In top left photo are Fred A. Grant (left), store operations manager of the Rink's Division, and Joseph Tulman, general soft goods merchandise manager. Shown at top right are, Irvin Kahn (left), general hard goods merchandise manager, and Herbert Ives, vice president of Rink's. Photo at lower right shows a view of several of the many products Rink's is now offering through its own profitable private label program. Other photos show views at Rink's expanded store in Middletown, Ohio.

Operations Report and Growth Planning

Gray Drug has for many years been one of the nation's largest and most profitable drug chains. It is now apparent that the characteristics which have enabled us to grow consistently as a drug chain are equally effective in the chain department store field.

These traditional characteristics of our operations include the building of strong market leadership within a specific geographic region, development of a prestige image in terms of reputation and store decor, concentration of outlets in fast-growing suburban areas, diversity and steady upgrading of product lines, competitive pricing, and comprehensive financial and inventory controls to assure good service at a profit.

Sales of Rink's have quadrupled during the six years it has been a part of Gray Drug. The Bargain City chain has increased sales over 50 per cent in just two years since its acquisition. And the tie-in through which the department store divisions serve as outlets for the leased departments of other divisions with particular skills adds a multiplier to our progress.

With a record number of drug store openings on the schedule, we obviously are maintaining our position as a principal drug chain. With the rapid growth of our Rink's and Bargain City divisions and their planned expansion, we are steadily strengthening our position as a major operator of discount department stores.

Ribbon-cutting ceremony marks opening of first of 15 new drug division outlets scheduled during the current fiscal year. From left to right are Leo Schor, then manager of the store in Eastland Mall at Warren, O.; Philip Lagnese, district manager; Adolph Weinberger, chairman of Gray Drug's Executive Committee; Joel Arnold, manager of store operating departments for the Gray Division; and Robert J. Kwait, manager of sales promotion. Mr. Schor, with the Company for many years, was taken ill and died several weeks after this photo was made.

Drug Store Divisions

Gray Drug, because of its financial standing and reputation for building consumer traffic, is the drug chain that most shopping center developers in our area seek out first when they plan a new project. This is illustrated by our schedule for the current fiscal year . . . already open are drug stores at the Eastwood Mall in Niles, Ohio and the Southland Mall in Marion, Ohio. Other full-line drug stores will be in the Southern Park Mall in Youngstown, Ohio; the Greenwood Mall in Toledo; a downtown center development in Cincinnati; Fashion Square in Pompano Beach, Florida; the Beaver Valley Mall in Beaver Falls, Pennsylvania; and the Chatauqua Mall in Jamestown, New York.

Our 11 new full-line stores and the four leased departments already on this year's schedule add up to an 8½ per cent increase in our drug division outlets, and we anticipate substantial growth from new stores

and from our present locations.

The Gray Division, operating full-line stores, and the King Division, operating discount stores and departments, formerly were under separate managements. Emphasis during the past year was on consolidating their operations at top management level for greater efficiency and profitability.

Five Gray Division stores were opened, one of them a larger replacement for a store which was closed, and two unprofitable full-line stores were closed. Five leased departments were opened in discount department stores, two of which are operated by our Bargain City Division, and five leased departments and three King Discount Drug units were discontinued because of inadequate profit or other problems. Five King Discount Drug units were reclassified as leased departments and a retail photographic department was opened at the Cleveland photo plant.
While the total number of outlets in operation thus remained the same, the result is a stronger operation.

Seventeen full-line stores were remodeled, in line with our policy of expanding such profitable departments as cosmetics and photography, and closing marginal restaurant operations to provide added space for faster-growing product lines.

A comprehensive program of remerchandising and remodeling in our discount drug outlets also was completed. This is vital work, involving dozens of changes at every outlet to reapportion and relocate space allotted to various product lines to assure maximum volume of those with greatest sales and profit potential. The results of this program should be beneficial during the current year.

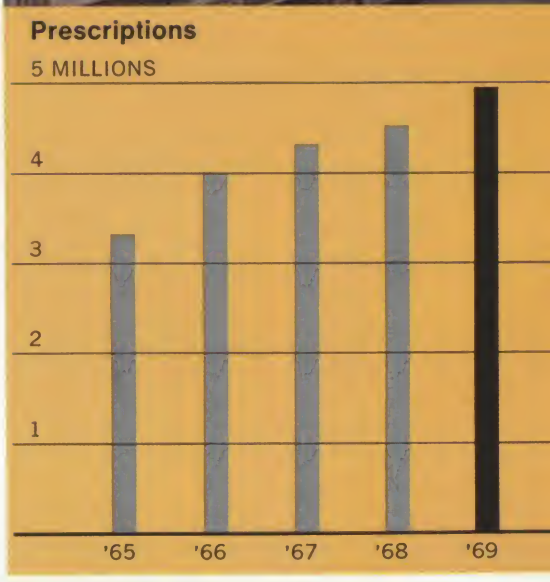
One of our major continuing efforts during recent years has been to put large, attractive cosmetic departments at the front of every store, and this program has been quite successful.

As always, prescription business continued to grow last year. Our more than 350 pharmacists filled some 4,905,000 prescriptions, representing a dollar volume of $16,898,000 or 12 per cent more than the preceding year.

While Gray Drug has always had a bonus plan for administrative people, one of the important steps taken by the drug divisions last year was introduction of a new incentive plan for mid-management personnel.

With plans already under way for a record expansion of our full-line drug stores, renewed emphasis is now being placed on developing new discount drug and leased department locations, and we also expect this phase of our business to keep growing rapidly.

Annual sales per square foot of sales area averaged $100 for our free-standing drug division outlets last year, and $200 for our leased departments. These figures indicate



Operations Report and Growth Planning (Continued)

our ability to attract consumers and move merchandise.

Department Store Divisions

Rink's Department Stores, operating nine large junior department stores averaging about 100,000 square feet each in Greater Cincinnati and Southern Ohio, increased sales 22 per cent to $31,250,780 during the past year. Volume of leased departments in its stores totaled $34,005,229, a figure reflected in increased rental income to Rink's.

Management of Rink's has been substantially strengthened. It is headed by Herbert Ives, an executive of Gray Drug for many years. A manager of store operations has been appointed, and separate managers have been put in charge of soft goods and hard goods operations.

The most important news at Rink's is its emergence as a fashion and apparel leader. Women's, children's and men's apparel departments have been expanded. Private label merchandise made by leading American manufacturers has been provided and this program will eventually be expanded to cover all staple items. Such merchandise can be provided at very reasonable prices, yet carries better-than-average profit margins.

A junior department store can be extremely competitive in selling clothing, which makes up a large part of every family's budget, and Rink's with an outstanding reputation in its market, is building volume

Typical scenes in one of Gray's new full-line drug stores.

rapidly in this field.

It also is continuing to upgrade product lines in other categories, and in addition, is increasing sales through its operation of the soft goods departments in the junior department stores of our Bargain City Division.

A major expansion project at Rink's last year was increasing the size of its small Milford, Ohio, store to an 80,000 square foot unit.

The Bargain City chain, with 13 stores in Toledo and Western and Central Ohio cities, also is growing rapidly. Its sales last year were $24,524,635, an increase of 26 per cent, and sales of leased departments were $20,918,895, also a new high. Management is headed by Hyman R. Swolsky.

Bargain City opened two new 100,000 square foot stores during the past year to replace smaller existing units. It also bought the leased appliance departments in most of its stores and started appliance departments in others, and these showed a profit during their first year.

One of Bargain City's interesting new projects is the opening of tire, battery and automotive accessory centers in 10,000-square-foot buildings adjacent to two of its stores. Each unit consists of a store area stocking approximately 10,000 products, and 16 bays for servicing cars. A special arrangement with Firestone enables the stores to offer a complete package of first-line Firestone TBA products.

The first TBA unit is working out well, and gasoline station facilities are now being added. This entire program appears to have a good potential, and similar TBA units may be built at other department stores.

Both Rink's and Bargain City are aggressive merchandisers in fast-growing population areas. Both anticipate substantial growth during the current year, and are engaged in active negotiations for new locations.

Diversity and Potential

Gray Drug is a highly diversified organization . . . operating full-line drug stores, discount drug stores, leased prescription, health and beauty aids, and photography departments and leased apparel departments, entire discount department stores, and one of the nation's larger photo processing facilities.

All of these operations are growing. Each has its own specific expansion plan. Each contributes to the progress of other divisions of the Company. Our diversity and divisional interrelationships are unusual, and provide substantial opportunities for the continuing profitable growth that is our constant corporate objective.

Over-all view and the cosmetic department in one of the prescription, health and beauty aids departments we operate in discount department stores.

ENTRANCE TO
DRUG SHOP
COSMETICS
DRUGS

COSMETICS
CAMERAS
&
FILMS
GREETING
CARDS
SUPPLIES

Interior of one of Bargain City Division's new 100,000 square foot department stores. In photo at upper right are, from left to right, Sol Norflus, general manager of mid-Ohio stores; Hyman R. Swolsky, president of Bargain City Division; and Samuel Shible, general manager of Toledo area stores.

Consolidated Balance Sheet
Gray Drug Stores, Inc. and Subsidiaries

ASSETS

	JUNE 30 1969	1968
CURRENT ASSETS		
Cash	**$ 3,903,025**	$ 4,272,638
Accounts receivable, less allowance of $30,000	**1,276,430**	1,233,568
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market	**35,254,695**	31,012,889
Prepaid expenses	**469,715**	507,987
TOTAL CURRENT ASSETS	**40,903,865**	37,027,082
OTHER ASSETS	**439,215**	473,479
PROPERTY AND EQUIPMENT—on the basis of cost		
Land (1969—$469,889; 1968—$163,347) and buildings	**542,461**	235,919
Furniture, fixtures and equipment	**7,749,493**	7,288,165
Leasehold improvements	**3,920,797**	3,515,386
	12,212,751	11,039,470
Less allowances for depreciation and amortization	**4,968,467**	4,733,178
	7,244,284	6,306,292
GOODWILL—Note A	**4,164,321**	3,758,997
	$52,751,685	$47,565,850

LIABILITIES AND SHAREHOLDERS' EQUITY

	JUNE 30 1969	1968
CURRENT LIABILITIES		
Notes payable to banks	**$ 1,073,528**	$ —0—
Trade accounts	**10,105,780**	8,561,282
Other liabilities and accrued expenses	**2,595,463**	3,151,277
Taxes other than federal income taxes	**906,952**	783,951
Federal income taxes	**2,051,738**	2,800,453
Current portion of long-term debt	**1,096,075**	296,075
TOTAL CURRENT LIABILITIES	**17,829,536**	15,593,038
LONG-TERM DEBT—less current portion—Note B		
Notes payable to bank	**7,200,000**	6,000,000
Payable under acquisition agreement	**296,076**	592,151
	7,496,076	6,592,151
SHAREHOLDERS' EQUITY		
Common Stock, par value $1 a share—Note C:		
Authorized: 1969—3,000,000 shares; 1968—2,000,000 shares		
Outstanding—1,662,540 shares	**1,662,540**	1,662,540
Capital in excess of par value	**9,207,297**	9,207,297
Earnings retained for use in the business—Note B	**16,556,236**	14,510,824
	27,426,073	25,380,661
LONG-TERM LEASE COMMITMENTS—Note D		
	$52,751,685	$47,565,850

See notes to financial statements.

Statement of Consolidated Income

Gray Drug Stores, Inc. and Subsidiaries

	YEAR ENDED JUNE 30, 1969	1968
Net sales	**$140,752,138**	$124,899,300
Rent from leased departments	**1,483,584**	1,880,780
Other income	**349,767**	327,262
	142,585,489	127,107,342
Costs and expenses:		
Cost of goods sold	**95,046,077**	83,665,555
Selling, general, and administrative expenses	**38,209,508**	34,081,730
Depreciation and amortization (computed principally by the straight-line method)	**1,271,545**	1,166,604
Interest expense	**625,899**	494,887
	135,153,029	119,408,776
INCOME BEFORE FEDERAL INCOME TAXES	**7,432,460**	7,698,566
Federal income taxes—Note E	**3,392,000**	3,504,800
NET INCOME	**$ 4,040,460**	$ 4,193,766
Net income per share of Common Stock	**$2.43**	$2.52

See notes to financial statements.

Statement of Consolidated Source and Application of Funds

Gray Drug Stores, Inc. and Subsidiaries

	YEAR ENDED JUNE 30, 1969	1968
SOURCE OF FUNDS		
From operations:		
Net income	**$4,040,460**	$ 4,193,766
Depreciation and amortization which did not affect working capital	**1,271,545**	1,166,604
TOTAL FROM OPERATIONS	**5,312,005**	5,360,370
Proceeds from bank borrowings	**2,000,000**	6,000,000
Long-term portion of amount payable under acquisition agreement	**—0—**	592,151
Fair market value of Common Stock issued in connection with companies purchased	**—0—**	750,000
Decrease in other assets and miscellaneous	**34,264**	—0—
	$7,346,269	$12,702,521
APPLICATION OF FUNDS		
Expenditures for property and equipment	**$2,209,537**	$ 1,652,467
Net carrying amount of property and equipment of purchased companies at acquisition date	**—0—**	636,975
Current maturities of long-term debt	**1,096,075**	—0—
Goodwill purchased	**405,324**	2,197,770
Cash dividends declared	**1,995,048**	1,662,540
Increase in other assets and miscellaneous	**—0—**	195,935
Added to working capital	**1,640,285**	6,356,834
	$7,346,269	$12,702,521

See notes to financial statements.

Statement of Consolidated Shareholders' Equity

Gray Drug Stores, Inc. and Subsidiaries

Years ended June 30, 1968 and June 30, 1969

	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	EARNINGS RETAINED FOR USE IN THE BUSINESS	TOTAL
Balance at July 1, 1967	$1,300,032	$8,819,805	$11,979,598	$22,099,435
Fair market value of 30,000 shares issued in connection with acquisition of certain companies	30,000	720,000		750,000
Par value of 332,508 shares issued to effect a five-for-four stock split	332,508	(332,508)		
Net income			4,193,766	4,193,766
Cash dividends declared—$1.00 a share			(1,662,540)	(1,662,540)
Balance at June 30, 1968	1,662,540	9,207,297	14,510,824	25,380,661
Net income			4,040,460	4,040,460
Cash dividends declared—$1.20 a share			(1,995,048)	(1,995,048)
Balance at June 30, 1969	$1,662,540	$9,207,297	$16,556,236	$27,426,073

See notes to financial statements.

Notes to Financial Statements

Note A—Goodwill:

Under the terms of a purchase agreement relating to the acquisition of certain companies, the Company is making additional payments of the purchase price in the amount of 50% of the annual combined net income (as defined) of such companies through June 30, 1971, and adding such amounts to goodwill.

Goodwill at June 30, 1969, represents the excess of cost of investment in purchased companies over their recorded net assets at acquisition dates. Because there has been no diminution in the values attributable to goodwill, the Company does not now intend to amortize such amount.

Note B—Long-term debt:

The notes payable to bank represent interim borrowings, under a revolving credit agreement, which were converted on August 1, 1969, into a term loan payable in quarterly installments of $200,000 each beginning September 30, 1969, and a final installment of $3,400,000 on June 30, 1975. The term loan bears interest at the prime commercial rate (8½% at June 30, 1969) plus ¼%. The terms of the agreement include covenants covering maintenance of working capital and limiting payments of cash dividends and other capital distributions (as defined). Under the more restrictive of these covenants, earnings retained for use in the business of approximately $6,076,000 were available at June 30, 1969, for distribution to shareholders.

The amount payable under acquisition agreement represents the unpaid balance of that portion of the purchase price of certain companies which is based on their book value (as defined) at date of acquisition, and is payable $296,075 annually through June 30, 1971, with interest at the prime commercial rate.

Note C—Common Stock:

On October 21, 1968, the shareholders approved an increase in authorized Common Stock from 2,000,000 shares to 3,000,000 shares, and a new stock option plan under which options for the purchase of 50,000 shares of Common Stock may be granted to officers and key employees at not less than the market price of the shares at date of grant. Options granted under the plan become exercisable, cumulatively, to the extent of one-fourth annually beginning one year from date of grant and expire five years from date of grant. At June 30, 1969, options for 32,250 shares were outstanding at $46.25 a share, and 17,750 shares were reserved for future grants.

Note D—Long-term lease commitments:

The Company and its subsidiaries are lessees under a number of leases extending over various periods up to twenty-two years. The annual aggregate minimum rental payable under such leases (many of which provide for additional rental if amounts based on specific percentages of sales exceed the minimum) amounted to approximately $4,810,000 at June 30, 1969.

Note E—Federal income taxes:

Federal income taxes have been settled through June 30, 1967. Accordingly, the provision for federal income taxes has been reduced by $252,000 in 1969, and $116,000 in 1968, representing prior years' provisions no longer required.

Note F—Pension plans:

The Company and its subsidiaries have two noncontributory pension plans covering certain of their employees. Total pension expense for the year ended June 30, 1969, was approximately $253,000, including amortization of past service costs to the retirement age of participants and after recognition of realized investment gains of $117,900. The effect of such recognition on net income was not material. The Company's policy is to fund pension cost accrued.

Accountants' Report

Shareholders and Board of Directors
Gray Drug Stores, Inc.
Cleveland, Ohio

We have examined the consolidated balance sheet of Gray Drug Stores, Inc. and subsidiaries as of June 30, 1969, and the related statements of consolidated income, shareholders' equity and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying statements identified above present fairly the consolidated financial position of Gray Drug Stores, Inc. and subsidiaries at June 30, 1969, and the consolidated results of their operations, changes in shareholders' equity, and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Cleveland, Ohio
August 29, 1969

10 Years of Progress

	1969	1968	1967	1966	1965	1964	1963
Net Sales	$140,752,138	$124,899,300	$93,598,735	$83,352,705	$73,570,697	$57,320,337	$51,875,334
Net Income Before Federal Taxes on Income	$ 7,432,460	$ 7,698,566	$ 6,087,794	$ 5,581,032	$ 4,337,653	$ 2,011,104	$ 1,399,066
Net Income	$ 4,040,460	$ 4,193,766	$ 3,256,894	$ 2,912,432	$ 2,176,053	$ 946,404	$ 662,366
Income per Common Share (1)	$ 2.43	$ 2.52	$ 2.01	$ 1.79	$ 1.72	$ .80	$ .56
Income as a Percentage of Sales	2.87%	3.36%	3.48%	3.49%	2.96%	1.65%	1.28%
Income as a Percentage of Shareholders Equity	14.73%	16.52%	14.73%	14.53%	16.55%	8.78%	6.41%
Cash Dividends Declared —Common Stock	$ 1,995,048	$ 1,662,540	$ 1,202,550	$ 858,805	$ 568,641	$ 503,723	$ 503,723
Dividends Per Share (1)	$ 1.20	$ 1.00	$ .74	$ .59	$ .45	$ .43	$ .43
Number of Shares Issued (1)	1,662,540	1,662,540	1,625,040	1,625,040	1,266,664	1,180,601	1,180,601
Net Working Capital	$ 23,074,329	$ 21,434,044	$15,077,210	$13,786,368	$12,431,574	$12,132,632	$11,692,984
Total Assets	$ 52,751,685	$ 47,565,850	$33,533,717	$31,711,280	$28,532,091	$22,764,138	$21,203,745
Long Term Debt	$ 7,496,076	$ 6,592,151	—	—	$ 5,141,300	$ 5,141,300	$ 5,230,000
Shareholders Equity	$ 27,426,073	$ 25,380,661	$22,099,435	$20,045,091	$13,144,946	$10,783,652	$10,340,971
Book Value Per Share (1)	$ 16.50	$ 15.27	$ 13.60	$ 12.34	$ 10.38	$ 9.13	$ 8.76
Fixture and Leasehold Additions	$ 1,956,545	$ 1,661,586	$ 1,465,563	$ 1,141,939	$ 1,184,347	$ 813,084	$ 923,337
Depreciation	$ 1,271,545	$ 1,166,604	$ 982,297	$ 967,289	$ 869,409	$ 731,322	$ 758,985
Units in Operation— End of Year	203	203	187	173	158	151	152

(1) Based upon the number of shares outstanding at the end of each year adjusted to reflect a stock split of 3 for 1 on September 30, 1960, a 3 for 2 stock split on September 30, 1966, and a 5 for 4 stock split on November 6, 1967.

1962	1961	1960
$44,952,417	$39,626,661	$37,552,700
$ 1,611,213	$ 1,467,793	$ 1,673,989
$ 801,113	$ 707,793	$ 793,989
$ .68	$ .76	$ .87
1.78%	1.78%	2.12%
7.87%	9.04%	10.82%
$ 476,335	$ 393,062	$ 323,850
$ .43	$ .43	$ .36
1,180,601	931,429	910,829
$11,599,620	$ 6,218,365	$ 6,087,245
$20,296,698	$14,195,991	$14,114,536
$ 5,230,000	$ 2,139,200	$ 2,313,500
$10,182,328	$ 7,826,699	$ 7,338,099
$ 8.62	$ 8.40	$ 8.06
$ 713,221	$ 901,411	$ 748,758
$ 667,295	$ 663,750	$ 633,483
134	117	111

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Gray Drug Stores, Inc.

Herbert H. Durr
Vice-President
Gray Drug Stores, Inc.

C. W. Evans
Chairman
Gray Drug Stores, Inc.

Marvin L. Kahn
Executive Vice-President
Drug Divisions
Gray Drug Stores, Inc.

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McDonald & Company

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Managing Partner, Jones, Day, Cockley & Reavis

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(Bargain City Division)

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Gray Drug Stores, Inc.

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Gray Drug Stores, Inc.

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(Bargain City Division)

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Cleveland, Ohio
Chemical Bank
New York, N. Y.

Registrar
The Central National Bank
Cleveland, Ohio
The Chase Manhattan Bank
New York, N. Y.

Stock Listed
New York Stock Exchange
Midwest Stock Exchange

Auditors
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Cleveland, Ohio

Counsel
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Cleveland, Ohio

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